14.01 Stockholders' Equity

Presentation of Stockholders' Equity (ASC-505) – Overview

- **Preferred stock**
  - Disclose shares authorized, issued, outstanding
  - Disclose dividend and liquidation preference
  - Disclose cumulative and participation rights
- **Common stock**
  - Disclose shares authorized, issued, outstanding
  - Net treasury shares under **par value method** from total (*contra C/S*)
- **Additional paid-in capital**
  - Preferred stock
  - Common Stock
  - Treasury Stock
  - Warrants
  - Employee stock options
- **Noncontrolling Interest in "S"**
- **Retained earnings** (Appropriated/Unappropriated)
- **Accumulated other comprehensive income (DENT)** (Prominently displayed)
  - **D**erivative cash flow hedges
  - **E**xcess adjustment of Pension PBO and FV of Plan assets at year end
  - **N**et unrealized gain or loss on available-for-sale securities
  - **T**ranslation adjustments for Foreign Currency
- **Treasury stock**
  - Report only if under **cost** method (*contra-equity*)

Common Stock

A corporation begins operations by issuing stock in order to raise funds. It will obtain the authority to issue shares from the state of incorporation. All corporations will issue some form of common stock, which normally has a **par value (Certificate of Incorporation) or stated value (Board of directors)** assigned to it. The issue price of the stock, however, is virtually always greater than the par, and this excess goes to additional paid-in capital (APIC) and is identified specifically as being from common stock.

For example, if a corporation is authorized to issue $10 par value common stock, and issues a single share for $13, the entry is:

Cash	13	
Common stock		10
APIC–C/S		3

If common stock has no par or stated value, there is no allocation between Common stock and APIC; the entire amount is simply recorded in the Common stock account.

If the stock is issued in exchange for **property** other than cash, the property is recorded at **fair market value.**

If **multiple securities** are issued (stocks and bonds or common and preferred stock), the **relative Fair market value method** should be used.

If stock is **repurchased and retired**, the accounts credited at the time of issuance are debited. If the repurchase price is lower than the original issuance price, the difference is credited to APIC from stock retirements. If the repurchase price is higher, the remainder is normally debited to retained earnings (after debiting any APIC that exists from previous stock retirements that exists).

For example, if the above share is **repurchased at $12** and retired, the entry is:

Common stock	10	
APIC–C/S	3	
APIC-Retired stock		1
Cash		12

If, instead, it is **repurchased at $15**, the retirement entry is:

Common stock	10	
APIC–C/S	3	
Retained earnings	2	
Cash		15

If the client had APIC-Retired stock from previous transactions, the debit to retained earnings would have been made to that account instead. If the difference, however, was greater than the balance in APIC-Retired stock, it would be reduced to zero and the remainder would reduce retained earnings.

A company will sometimes obtain **stock subscriptions** from potential shareholders for new offers of the stock. A down payment is received at the time of the subscription, and the remainder when the stock is issued.

Assume the client is planning to issue shares of its $10 par value stock at $30 per share, and obtains subscriptions from potential buyers, who are required to make a $3 down payment with the subscription and pay the balance when the stock is issued to them. The entry when the subscription is taken out is:

Cash	3	
Subscriptions receivable	27	
Common stock subscribed		10
APIC–C/S		20

When the balance is paid and **stock issued**, the entry is:

Cash	27	
Common stock subscribed	10	
Subscriptions receivable		27
Common stock		10

If a company does not issue stock within a certain time period after subscription, the potential investor is entitled to a **refund** of the down payment and **cancellation of the contract.** If the company failed to issue stock, the refund entry is:

Common stock subscribed	10	
APIC–C/S	20	
Cash		3
Subscriptions receivable		27

If, on the other hand, the potential buyer breaches the subscription contract and refuses to purchase it when available, the company is normally entitled to **keep the down payment** as an estimate of damages from breach, and records the cancellation as follows:

Common stock subscribed	10	
APIC–C/S	20	
APIC-Forfeited subscriptions		3
Subscriptions receivable		27

If shareholder **donates** stock back to corporation, the entry would be:

Treasury Stock	X (@ FMV)	
APIC–T/S		X